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TECHNOLOGY MARATHON

Cryptocurrency in the Middle East

Alishia Sullivan and Andrea Dougall

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Presenters



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WHAT IS CRYPTOCURRENCY?

- Digital or virtual currency secured by cryptography
- Utilizes a peer-to-peer system that doesn't rely on banks
- Maintained on a public decentralized ledger
- No central authority
- Access keys are stored in digital wallets



EXAMPLES OF CRYPTOCURRENCY

- Bitcoin
- Ethereum
- Litecoin
- Ripple

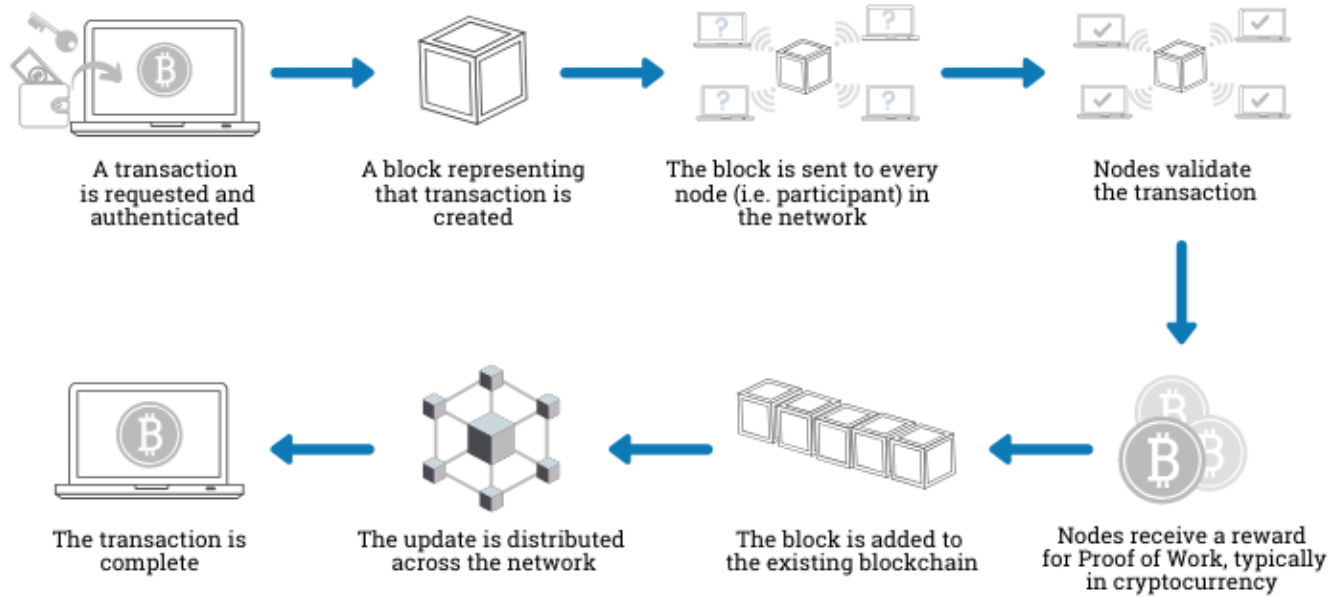


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HOW DOES CRYPTOCURRENCY WORK?

How does a transaction get into the blockchain?



WHAT DO WE MEAN BY BLOCKCHAIN?

- Digital ledger of transactions that is duplicated and distributed across the entire network of computer systems on the blockchain
- The digital asset is stored on the blockchain ledger, and the keys that give you access to it are stored in a wallet
- Anything that blockchain records is there for good and cannot be modified or tampered with – even by an administrator



HOW DO I OBTAIN CRYPTOCURRENCY?

- Mined, purchased from cryptocurrency exchanges or rewarded for work done on a blockchain
- Cryptocurrency exchange ("**CAX**") is a platform on which you can buy and sell cryptocurrency
- Mining is the process of validating cryptocurrency transactions and creating new units of cryptocurrency



HOW ARE CRYPTOCURRENCIES VALUED?

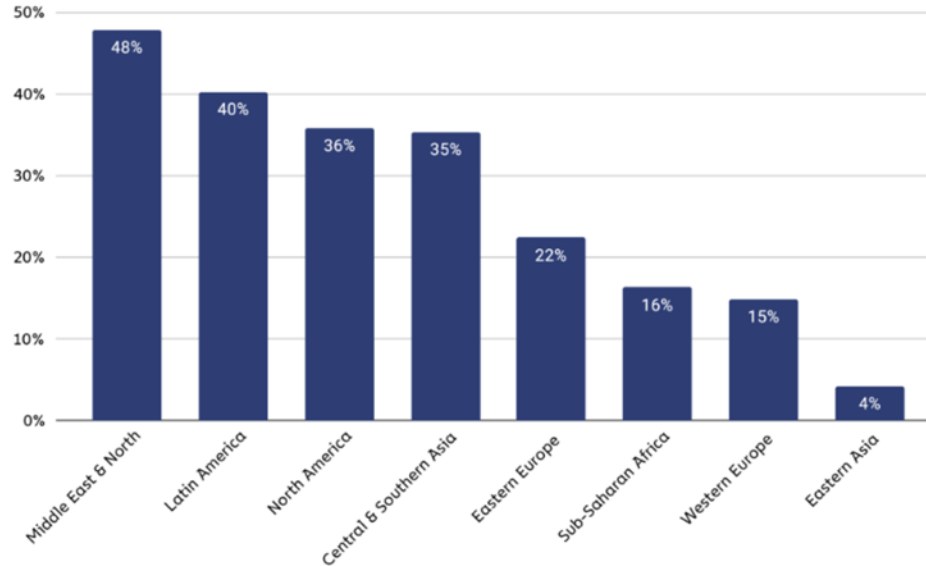
- If enough people agree it is valuable, then it becomes more valuable
- Scale of community involvement e.g., Ethereum for purchasing NFTs
- Limited supply e.g., Bitcoin

Bitcoin's Price History



GROWTH OF CRYPTOCURRENCIES IN THE MIDDLE EAST

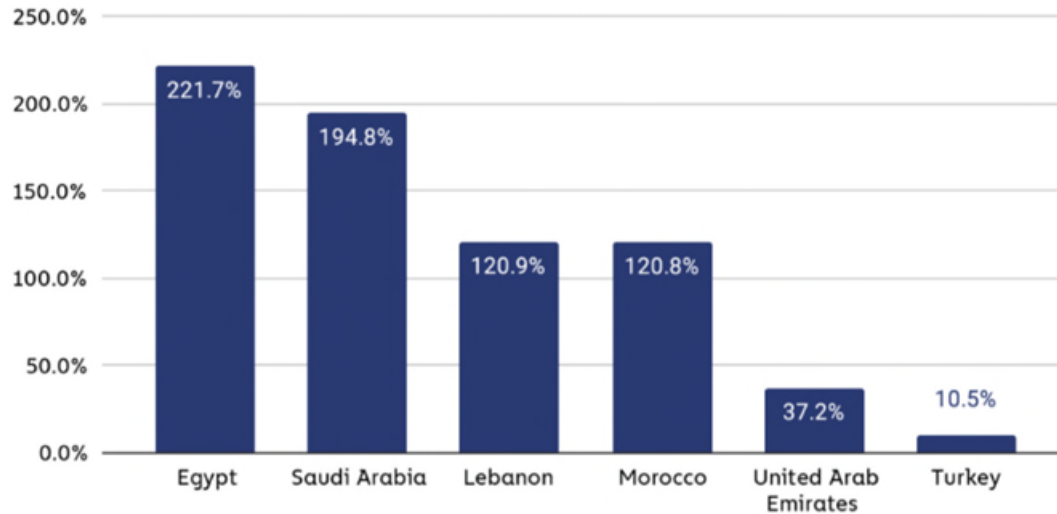
YoY growth in crypto transaction volume by region, July 2020 - June 2021
vs. July 2021 - June 2022



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GROWTH OF CRYPTOCURRENCIES IN THE MIDDLE EAST

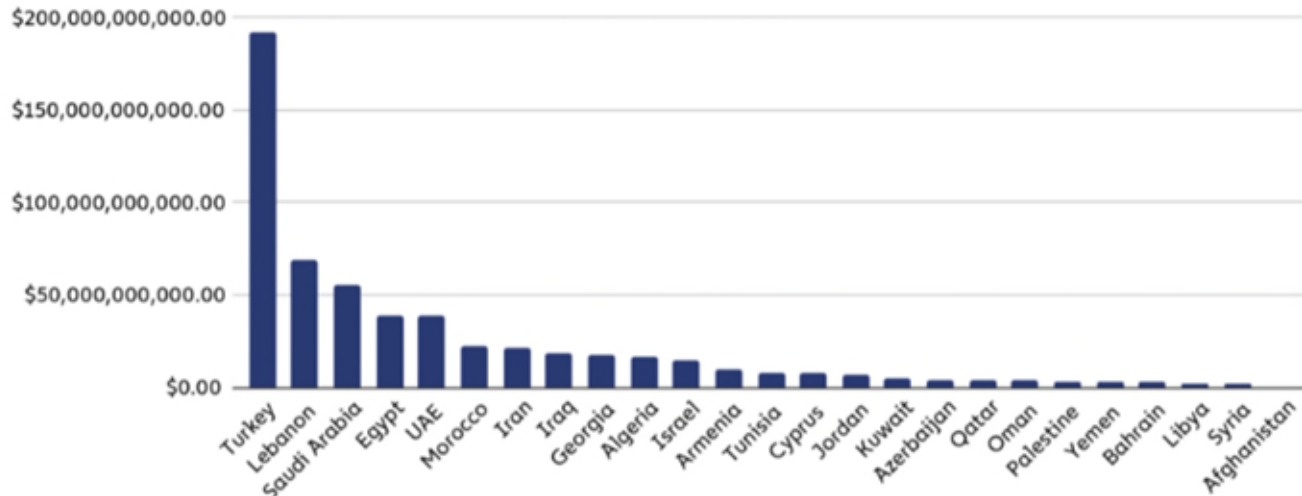
MENA countries by YoY growth in crypto transaction volume,
July 2020 - June 2021 vs. July 2021 - June 2022



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GROWTH OF CRYPTOCURRENCIES IN THE MIDDLE EAST

Middle East & North Africa: Countries by cryptocurrency value received, July 2021 - June 2022



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CRYPTOCURRENCY REGULATIONS IN BAHRAIN AND THE UAE

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BAHRAIN

- Regulates cryptocurrency under the Bank of Bahrain Rulebook, Crypto-Asset Module, Volume 6: Capital Markets
- Strict licensing requirements including for example:
 - licensees must have a designated place of business in Bahrain (or at least a local management premises in the case of overseas CAXs)
 - Measures in place to combat cybersecurity risks



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Federal Level

- SCA Decision No. 23 of 2020 Concerning Crypto Assets Activities Regulation (“**CAAR**”)
- Cabinet Decision No. 111/2022 (“**2022 Decision**”)
- Extends financial securities regulations to treat crypto-assets as securities and within the umbrella of traditional financial activities
- CAAR do not apply to crypto-assets issued by government entities or digital currencies issued by entities licensed by the Central Bank



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The 2022 Decision – Key Definitions

- **Virtual Assets:** “A digital representation of value that can be digitally traded or transferred and can be used for investment purposes. This does not include the digital representation of fiat currency, securities or other assets”
- **Virtual Asset Activities:**
 - a) providing services for the operation and management of Virtual Asset Platforms
 - b) providing services for the exchange between one or more forms of Virtual Assets
 - c) providing services for the transfer of Virtual Assets
 - d) providing brokerage services in Virtual Asset trading
 - e) providing services for the custody and management of Virtual Assets and enabling control over them
 - f) providing financial services in connection with an issuer's offer and/or sale of Virtual Assets or participating in the provision of such services

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Emirate Level - Dubai

- Dubai Law No. 4 of 2022 on the Regulation of Virtual Assets, implemented by the Virtual Assets and Related Activities Regulations 2023 (the “**VARA Regulations**”)
- Dubai Virtual Assets Regulatory Authority (“**VARA**”)



VARA REGULATIONS - VIRTUAL ASSET ACTIVITIES

“**Virtual Asset Activities**” include the following activities with respect to Virtual Assets:

- a) Advisory Services
- b) Broker-Dealer Services
- c) Custody Services
- d) Exchange Services
- e) Lending and Borrowing Services
- f) Payments and Remittances Services
- g) Management and Investment Services

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ADGM

- FSRA is responsible for regulating Virtual Asset Activities in the ADGM
- FSRA extends its existing regulatory regime for traditional financial instruments to:
 - Virtual Assets
 - Digital Securities
- FSRA has the power to determine whether a Virtual Asset is an Accepted Virtual Asset



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DIFC

- DFSA has implemented a regulatory framework extending the regulations for traditional financial instruments:
 - Investment Tokens
 - Crypto Tokens
- Only activities in Crypto Tokens reviewed and approved by the DFSA are permitted
- BTC, ETH and LTC are the only Crypto Tokens accepted by the DFSA
- DFSA does not allow the issuance of new Crypto Tokens in or from the DIFC



KEY TAKEAWAYS



- Growth of cryptocurrencies in the Middle East driven by:
 - developing regulatory systems
 - need for an alternative currency in response to economic difficulties
- Bahrain and the UAE are expected to continue to develop virtual asset regulations and become a global “crypto hub”

Biography



Alishia K. Sullivan

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Since 2008, Alishia K. Sullivan has been a resident in the United Arab Emirates where she advises pension funds, sovereign wealth funds and other institutional investors in connection with their global investment activities across asset classes and regional and global investment managers in connection with fund formation and management in the Abu Dhabi Global Market (ADGM) and the Dubai International Financial Center (DIFC). Alishia advises institutional investors, focusing primarily on investments in private funds, including leveraged buyout, hedge, infrastructure and real estate funds, and direct and co-investments.

Biography



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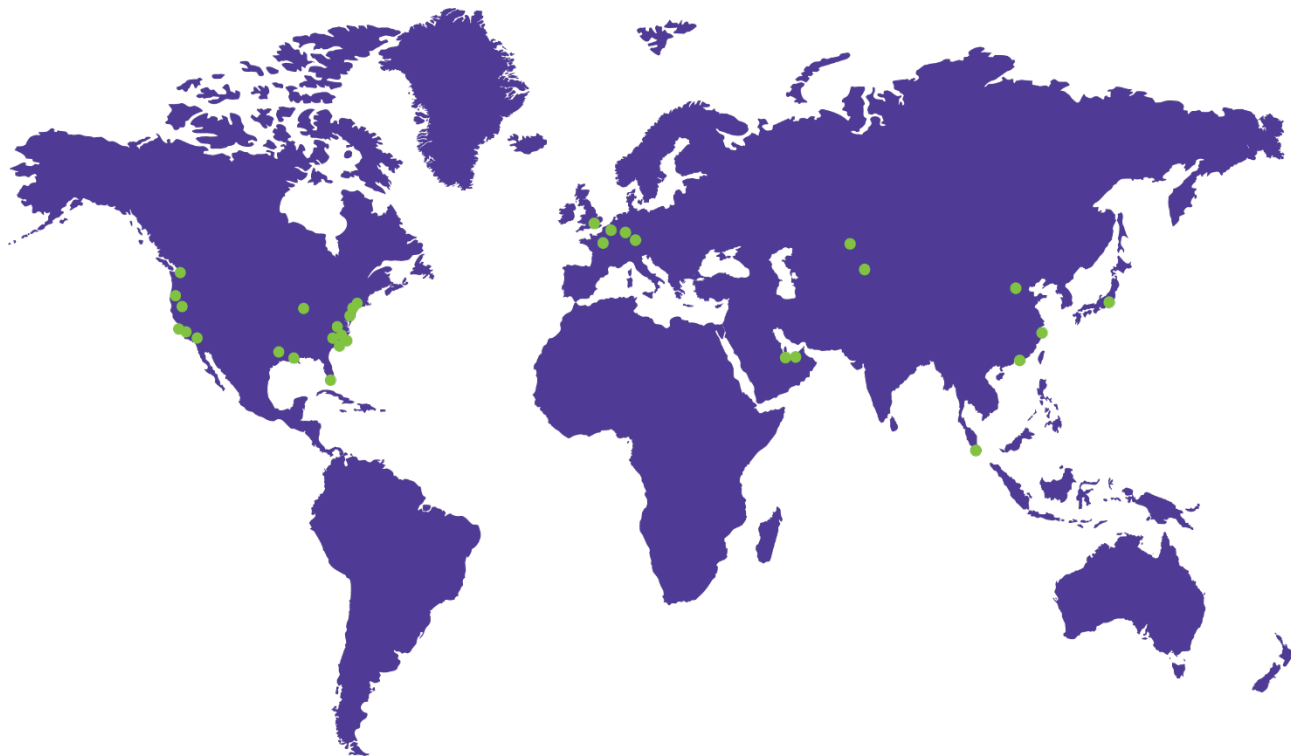
Andrea Dougall's practice primarily focuses on representing investors on their global fund investments. Her clients include a number of significant sovereign wealth funds, pension funds, and other global institutional investors, whom she advises on investments in open- and closed-ended funds, separate managed account arrangements, co-investments, joint venture arrangements, and other bespoke investment structures and platforms across asset classes. Andrea is admitted to practice in England & Wales.

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